

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Rate Adjustment Due to Extraordinary )  
or Exceptional Circumstances )  
)  
)

Docket No. R2013-11

**VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.  
FOURTH MOTION FOR ISSUANCE OF INFORMATION REQUEST  
(November 7, 2013)**

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.  
(hereinafter "Valpak"), pursuant to Rule 3001.21(a), hereby move the Commission to issue an Information Request seeking additional clarifying data and explanation from the Postal Service primarily concerning the "Further Statement" of Thomas E. Thress submitted with the Postal Service's request on September 26, 2013. These proposed questions seek information that will amplify and clarify the Postal Service request, and particularly Mr. Thress's statement, and will assist the Commission in making a determination on the Postal Service's request.

In the alternative, these questions are submitted as suggested questions to be asked by the Commission at the public hearing.

1. For the five Standard Mail products listed below, the FY 2009 and FY 2010 RPW Reports posted on the Postal Service web site show different volume figures for FY 2009. (N.B. In the FY 2010 RPW Report, the volume data for FY 2009 appear in the column for the preceding year.)

|                  | (1)<br>As shown in<br>FY 2009 RPW<br>(000) | (2)<br>As shown in<br>FY 2010 RPW<br>(000) |
|------------------|--|--|
| HD & Sat Letters | 5,085,391                                  | 4,995,529                                  |
| HD & Sat Flats   | 12,356,828                                 | 11,801,047                                 |

|               |            |            |
|---------------|------------|------------|
| Carrier Route | 9,856,763  | 9,953,347  |
| Letters       | 46,559,408 | 46,800,733 |
| Flats         | 7,793,175  | 7,837,100  |

- a. Please explain the discrepancy between columns 1 and 2, and state which are the correct volume data for FY 2009.
  - b. For FY 2009, which of the above volume data were used by witness Thress for his analysis of Standard Mail.
2. The following questions relate to the results for Standard Mail shown in the spreadsheet “Exigent Impact” contained in USPS-R2010-4R-10, and also to the Response to POIR No. 3, Q. 1 by Witness Thress, where he states that:

Instead of using direct measures of Internet usage – which would lead to an inevitable expectation that the rate of Internet diversion should attenuate over time as Internet usage levels attenuate toward the stable long-run levels typical of a mature market – the apparent ongoing diversion of mail to the Internet (and elsewhere) **is now modeled through simple linear trends.** To the extent that there is evidence that the rate of diversion may be changing over time, the **magnitude of these trends is allowed to change** over time within the Postal Service’s econometric demand equations. [Emphasis added.]

- a. For the time period covered by the analysis which underlies the results reported there for Standard Mail, how many different trends (or trend variables) does the model explicitly contain, *i.e.*, the column headed “Trends” is plural; do the data reported in this column subsume more than one trend?
- b. For each trend (or trend variable) applicable to Standard Mail, please “move outside the econometric model” and explain the underlying factors that are (or are thought to be) driving these trends (*e.g.*, bankruptcy and disappearance of through-the-mail merchants, diversion to electronic media for shopping or payment purposes, etc.) and provide the economic rationale for including those trends in the model.
- c. Does the model used to generate the results for Standard Mail shown in the “Exigent Impact” spreadsheet contain any trends (or trend variables) that are applicable to only one of the individual products within Standard Mail? If so, please indicate the variable to which the trend applies and explain the period covered by such trend and the rationale for inclusion of any such single-variable trend.

- d. Does the model used to generate the results for Standard Mail shown in the “Exigent Impact” spreadsheet contain any trends (or trend variables) that are applicable only to a subgroup of products within Standard Mail, *e.g.*, ECR, or Regular, or just flats, or just letters? If so, please indicate the subgroup of variables to which the trend variable(s) pertain, and explain the rationale for inclusion of any such trend(s).
3. In response to POIR No. 2, Q. 8, witness Thress states that “Historical trends are projected to continue forward at the same rate because I have no reason to assume that they will not.” That is, trends generally are considered to remain in effect until they are deemed either to have changed or, perhaps, no longer be applicable.
    - a. Were any of the separate trends used to model Standard Mail deemed to have “expired,” or otherwise no longer be in effect at the end of 2011? If so, please explain why they were deemed to be no longer applicable, and explain whether one or more new trend variable(s) was added to the model to replace any trend variable after it was discontinued and no longer had any effect.
    - b. Please explain the criteria used to determine whether any trend(s) or trend variable(s) robust to the model in 2002 were deemed no longer applicable by 2012.
  4. For the various Standard Mail products shown in the spreadsheet “Exigent Impact” contained in USPS-R2010-4R-10, two separate columns show the change in mail volume attributed, respectively, to (i) Nominal Price, and (ii) Inflation. The negative coefficient on entries under Nominal Price and the positive coefficient for entries under Inflation are both in agreement with basic economic theory. With respect to the magnitudes of volume change shown in these two columns:
    - a. Are the elasticities for Standard Mail submitted annually applicable to nominal or real (*i.e.*, inflation-adjusted) price changes?
    - b. To what extent do the changes in volume attributed to these two factors, either separately or jointly, reflect the annual estimated elasticities for the products within Standard Mail? That is, to what extent do the magnitudes of the estimated changes in volume attributed to “Nominal Price” and “Inflation” conform with and support the elasticity estimates submitted annually for the products in Standard Mail?
    - c. Do the years shown in the “Exigent Impact” spreadsheet pertain to calendar or fiscal years?

5. Please refer to the Standard Mail products shown in the spreadsheet “Exigent Impact” contained in USPS-R2010-4R-10. In the context of annual data, how should one interpret the reported volume changes due to “Seasonality,” *i.e.*, to what “season” do these annual changes in volume pertain?
6. Please refer to the Standard Mail products shown in the spreadsheet “Exigent Impact” contained in USPS-R2010-4R-10. Under Standard Flats, under the column marked “Rate Change,” entries for the years 2007 and 2008 are, respectively, 144.993 and 221.554. Please interpret or explain these two positive entries. Specifically, what Rate Change caused an increase in the volume of Standard Flats in those two years (and in no other years)?
7. The following questions pertain to the spreadsheet “Exigent Impact” contained in USPS-R2010-4R-10, and the section headed Standard Regular Flats.
  - a. For the years 2008 and 2009, the estimated volume change due to “Impact of Price Elasticity” was, respectively, -657.745 and -66.739, for a combined two-year negative impact of -724.484. For those same years, the estimated impact of Inflation on volume was +171.209 and +40.838, for a combined positive impact of +212.047. Would it be reasonable to say that for these two years the estimated net impact of inflation-adjusted price change on volume of Standard Regular Flats was -512.437? If this is not a reasonable interpretation of the preceding data, please provide the best estimate for the impact of inflation-adjusted price change on the volume of Standard Regular Flats for the years 2008 and 2009 and explain how it is derived.
  - b. For the years 2008 and 2009, the volume change of Standard Regular Flats due to “Total Macro” was, respectively, -952.666 and -1,809.769, for a combined two-year negative impact of -2,762.430. For those two years, would it be reasonable to say that the Total Macro impact on of Standard Regular Flats exceeded by more than five times the impact of inflation-adjusted price changes -512.437. *I.e.*, during the two years in question, the estimated impact of price changes on the volume of Standard Regular Flats appears to have been relatively minor in comparison with the impact of macro-economic factors and the Great Recession. If this is not a reasonable interpretation of the data discussed here, please provide the correct estimate for the impact Total Macro versus real price changes on the volume of Standard Regular Flats for the two years in question.
  - c. For the years 2008 and 2009, the column marked “Other” contains, respectively, the following entries: -1,843.546 and -366.176. Please explain the underlying factors thought to be driving these two negative entries.

8. The following questions pertain to the spreadsheet “Exigent Impact” contained in USPS-R2010-4R-10, the section headed Standard ECR Basic and Standard NP ECR Basic.
- a. Do the volume data shown under “Standard ECR Basic” and “Standard NP ECR Basic” coincide with volume data reported for the “Carrier Route” product contained in the RPW and CRA Reports? If not, please explain all differences.
  - b. Under Standard ECR Basic, for the years 2008 and 2009 the volume change due to “Impact of Price Elasticity” was, respectively, -898.420 and -581.866, for a two-year combined estimated negative impact on volume of -1,480.285. For those same years, the impact of Inflation was +360.729 and +203.229, for a combined estimated positive impact on volume of +563.958. Would it be reasonable to say that for these two years the estimated net impact of inflation-adjusted price change on the volume of Standard ECR Basic was -916.327? If this is not a reasonable interpretation, please provide the best estimate for the impact of inflation-adjusted price change on the volume of Standard ECR Basic for 2008 and 2009.
  - c. Under Standard ECR Basic, for the years 2008 and 2009, the volume change due to “Total Macro” was, respectively, -376.002 and -1,312.280 for a combined negative impact of -1,688.283. For those two years, would it be reasonable to say that the Total Macro impact on Standard ECR Basic exceeded by about 1.8 times the impact of inflation-adjusted price changes? If this is not a reasonable interpretation, please provide the correct estimate for the impact Total Macro versus inflation-adjusted price changes on the volume of Standard ECR Basic for the two years in question.
  - d. Under Standard ECR Basic, for the years 2008 and 2009 the column marked “Other” contains, respectively, the following entries: -1,148.192 and -332.140. Please explain the underlying factors thought to be driving these two entries.

Respectfully submitted,

---

William J. Olson  
Jeremiah L. Morgan  
John S. Miles  
WILLIAM J. OLSON, P.C.  
370 Maple Ave. W, Suite 4  
Vienna, Virginia 22180-5615  
(703) 356-5070

Counsel for:

Valpak Direct Marketing Systems, Inc. and  
Valpak Dealers' Association, Inc.